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El Salvador Fiscal Policy and Expenditure Management Program (FPEMP)

Quarterly Report
December – February 2012

March 2012

This publication was produced for review by the United States Agency for International Development. It was prepared by Development Alternatives, Inc.

FISCAL POLICY AND EXPENDITURE MANAGEMENT PROGRAM (FPEMP)

QUARTERLY REPORT December - February 2012

Program Title:	Fiscal Policy and Expenditure Management Program
Sponsoring USAID office:	USAID/El Salvador Economic Growth Office
Contract Number:	AID-519-11-000001 REQ-519-10-000011
COTR:	Martin Schulz
Contractor:	DAI
Date of Publication:	March 2012

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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FINANCIAL INFORMATION (AS OF FEBRUARY 29, 2012)	ERROR! BOOKMARK NOT DEFINED.

ACRONYMS

AECID	Spanish International Cooperation
CSMS	Case Selection Management System
COMPRASAL	Public Procurement System
COTS	Commercial off the Shelf
DAI	Development Alternatives Inc.
DECAMH	MOF's Training Department
DGICP	General Directorate for Public Investment and Credit
DGII	General Directorate for Internal Revenue
DGP	General Budget Office
DGT	Treasury General Directorate
DINAFI	National Directorate for Financial Administration
FPEMP	Fiscal Policy and Expenditure Management Program
GOES	Government of El Salvador
GIZ	German International Cooperation
GRP	Government Resource Planning
IMF	International Monetary Fund
IT	Information Technology
LTO	Large Taxpayers Office
MOF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
OAS	Oracle Application Server
PEM	Public Expenditure Management
PIMS	Public Investment Modernization System
ROB	Results Oriented Budgeting
SAFI	National Financial Management System
TAIIA	Internal Taxes and Customs Taxes Appeals Court
TCA	Taxpayer Current Account
TPAR	Tax Policy and Administration Reform Project
TRS	Taxpayer Registry System- RUC
TSA	Treasury Single Account

UAAP	Hearings and Test Opening Unit
UNAC	National Procurement Office
USAID	U.S. Agency for International Development

Executive Summary

U.S. Agency for International Development (USAID) signed a contract with Development Alternatives Inc. (DAI) on June 10, 2011 to design and implement a program for modernizing and improving fiscal policy and expenditure management in El Salvador.

The purpose of the Fiscal Policy and Expenditure Management Program (FPEMP) is to support a technical assistance program to the Government of El Salvador's (GOES) Ministry of Finance (MOF) in the areas of tax policy and administration, public expenditure management systems, and public-private dialogue between the government, the private sector, and civil society. The main counterpart for these activities is the Ministry of Finance (MOF).

FPEMP has three main components. These are:

1. Component A: Enhanced Public Expenditure Management
2. Component B: Improved Revenue Mobilization
3. Component C: Strengthened Private Sector Engagement

Highlights for December to February 2012, the third quarter, are listed below:

Activities Performed

- Functionality study of Government Resource Planning (GRP) – First Phase.
- Recommendations for the structure of the SAFI II system.
- Definition of the SAFI II tasks.
- Preparation of the technological environment to develop the following software initiatives: CSMS II, Taxpayer account and Taxpayer Registry.
- Development of TCA system user cases.
- Development of TRS user cases.
- Definition of a strategy with MOF for CSMS sustainability.
- Coordination of the TRS clean-up.
- Coordination of the TCA clean-up.
- Supporting User Cases of Case Selection Management System (CSMS) supervision, CSMS selection, Taxpayer registry, and Taxpayer account.
- Development of the Large Taxpayers Directorate implementation plan.
- Developing a Tax Collections Call Center.
- Dissemination Strategy and Fiscal Transparency Initiative.

- Outreach system for fiscal.
- Change Management Strategy.
- DECAMH strengthening – Functional Administrative.

Quarterly results

- Definition of a conceptual model of the new GOES public finance system.
- Development of the public expenditure modernization program critical path.
- Coordinate the definition of the conceptual model for the Large Taxpayer Office.
- Tax benchmarking study.
- Improvement in the Tax Administration IT System (SIIT).
- Development of the revenue mobilization program critical path.
- Defining the approach for DECAMH strengthening.
- Training on the methodology to elaborate training curriculums for workstations.
- Development of the EXPRESATE project.
- Development of the transparency initiative critical path.
- Training on 2011 Tax Reforms Outreach to taxpayers.
- Donor matrix development.

Introduction

This report covers the FPEMP project activities during the period from December 1, 2011 to February 29, 2012. The project began on June 10, 2011, when USAID and DAI signed the Contract. The project is for four years, with one optional year. The entire four-year period concludes on June 9, 2015.

USAID commissioned DAI and its FPEMP team to design and implement a program for modernizing and improving public expenditure management, tax policy and administration in El Salvador. The project goals are to build a modern and transparent public expenditure system that follows the best international practices, to strengthen tax policy and administration to improve revenue collection, and to facilitate private sector outreach.

FPEMP thus proposes to present our progress, in this and future reports, according to the project's three components:

- Component A: Public expenditure management
- Component B: Tax revenue mobilization
- Component C: Private sector outreach

During this quarter, the project went through the very challenging task of donor coordination and redefinition of the activities to be implemented within the MOF. The concurrency of several donor programs supporting the Salvadoran MOF in the area of public expenditure reform, including European Union (EU), German International Cooperation (GIZ), Spanish International Cooperation (AECID), Inter-American Development Bank (IDB) and World Bank (WB), has forced the MOF to reorganize the assignments of tasks across the different projects.

The FPEMP program took a lead role in the donor coordination effort as the COP took the initiative and led the development of a preliminary matrix of activities that incorporated inputs from the EU and the GIZ teams. This matrix was then submitted to the MOF for consideration. The National Directorate for Financial Administration (DINAFI) used this matrix as the basis to allocate the tasks assignments. On January 18th, 2012, the MOF delivered a seminar where all the activities were notified to the donor community. These reassignments affected the schedule of some tasks currently undergoing by FPEMP and some activities assigned in the task order were assigned to other donors.

Component A. Some activities of component A were assigned to other donors, especially the activities related to:

1. Strengthening of the regulatory unit of procurement and development of e-procurement (IADB)
2. Modernization of the human resources system and its integration with the SAFI (WB).
3. Modernization of the public investment system (EU).
4. Procurement of the new SAFI system, which will be a Commercial off the Shelf System-COTS (WB).

5. Modernization of the public debt management system (Department of Treasury, Office of Technical Assistance-OTA, and EU).

FPEMP will participate in the development of the user cases for public investment and public debt management for the SAFI II.

In the midst of the challenging scenario of developing the donor assistance's matrix, the project completed the development of the conceptual model for the modernization of the Salvadoran public finance system, which was satisfactorily endorsed by the MOF executive staff, and distributed to the donor community and USAID.

Moving forward with the donor's matrix tasks, the project developed a critical path (CP), which purpose is to guide the planning of activities related to budget modernization, Treasury Single Account (TSA), public accounting system harmonization and update with the International Public Sector Accounting Standards (IPSAS), and SAFI II project development and municipal SAFI development. The CP was submitted to DINAFI and the MOF directorates for discussion. During the following quarter, the COP will seek agreements among all the directors regarding the specific tasks, timing and deliverables.

Regarding the implementation of the TSA, the IMF contracted a consultant by the end of February to improve the TSA implementation plan. After this task is finished, the FPEMP COP will meet with the Treasury General Directorate's (DGT) and DINAFI's directors in order to determine the specific activities that FPEMP will be implementing.

On the same scenario of the TSA, the MOF initially assigned the IADB the task of conducting the assessment of the accounting system status and the development of a work plan for the system harmonization. Due to timing and contracting issues, the MOF later requested FPEMP to take on this task. Once this task is finished, the COP will meet with the directors of the Government General Accounting Directorate (DGCG) and DINAFI to determine the specific activities FPEMP will be implementing.

Component B tasks have continued moving forward during the quarter. This component was not impacted by the donors coordination and task assignment matrix developed during the quarter.

The project began the development of the TRS and TCA application upgrade. The application for the electronic "solvencias" (solvencies) request system was completed during this quarter and is currently in the testing stage.

As explained in the previous quarter, the project was waiting the Vice Minister of Revenue to release the tax benchmarking update, but never happened, so the project had to develop the benchmarking itself, it was finished and submitted to USAID.

The project continued coordinating the TRS and the TCA clean-up program implementation in coordination with DGII.

The CSMS upgrade program continued with the user cases for audit and fiscal compliance finalization, and during the next quarter the project will begin the development of the software generation system in order to proceed with the CSMS application migration and update.

The task of Call Center development for collection began during the quarter, the Minister of Finance and the treasurer are really enthusiastic with the impact that the call center will have in the collection of the tax arrears.

The project developed a CP for component B and made the necessary presentation to the Vice Minister of Revenue, DINAFI, DGII, customs and DGT. They agreed in the tasks presented, timing and deliverables.

Component C of the project began working with the Presidency's Undersecretary for Transparency during this quarter, as well as with DINAFI and the EU project to develop the fiscal transparency policy strategy for El Salvador. The tasks have been agreed upon and it is expected that the joint work of FPEMP and EU will produce the Fiscal Transparency Policy that will be integrated in the general framework of the transparency and anticorruption policy of El Salvador.

The task of implementing a state-of-the-art training system for the MOF began during the quarter. FPEMP consultants developed a plan for the modernization of the MOF training center, DECAMH, and worked on the drafting of the reform of DECAMH's functions.

The EXPRESATE project is a MOF initiative in support of the fiscal reform dissemination and transparency program. The project consists in the development of a training area for teaching high school students the importance of taxes, public expenditure in the country development, and the responsibility of taxpayers and citizens to comply with their duties. Planning for the roll out of this project began during this quarter. It is expected that the Vice Minister of Revenue will approve the implementation plan during the following quarter. After this, FPEMP will begin the development of the EXPRESATE center.

The project began the task of change management, per MOF request and also included in the donors assistance matrix. During the month of February, the project began the process of contracting a company to develop the change management strategy as well as the implementation plan.

COMPONENT A: Public Expenditure Management

FPEMP focuses its efforts on helping the GOES advance its public expenditure management (PEM) reform agenda that will result in a budget process that is more effective, transparent, innovative and responsive. FPEMP supports the MOF in implementing results oriented budgeting, treasury operations and an improved financial management information system.

ACTIVITIES PREVIOUSLY PLANNED AND NOT IMPLEMENTED IN THE 3rd QUARTER

Several activities were planned for the third quarter based on the annual work plan and the previously submitted quarterly report, but were not implemented at the MOF's request to postpone them. The reorganization of tasks generated by the donor coordination efforts affected FPEMP's schedule of activities. Tasks have been re-prioritized and rescheduled accordingly. Some of these tasks include:

- **Workshop on cost-benefit analysis for the DGICP and the DGP.** The task of supporting Public Investment Modernization has been assigned to the EU. The FPEMP project support in this area will be limited to the development of the conceptual model for the SAFI II Public Investment Application. Workshops and training related to this task will be delivered by the EU.
- **Study tours on planning and budgeting reform, budget and financial accounting, and treasury single accounting.** Currently the IMF is finishing the task of developing the TSA implementation work plan. Once finished, FPEMP will schedule and deliver a study tour on TSA development and implementation. Regarding budget reform activities, the DGT and all donors agreed that until the SAFI II user cases are not finished, the task of implementing the new budget system should not begin. On the accounting system, FPEMP will hire a consultant during the following quarter to conduct an assessment of the current national accounting system of El Salvador and develop a reform plan.
- **Technical assistance for the implementation of the Logical Framework Approach (LFA) and Value Chain Approach (VCA) strategic indicators for performance monitoring and evaluation within the Ministries of Health, Education, Environment, and Agriculture.** According to the donors coordinating matrix development this task is still pending to be scheduled.
- **First module of SAFI II (budget formulation based on the new “*encrypted budget*” (*Cifrado Presupuestal*) unifying programs, sub-programs, and activities/projects) under ROB testing with DINAFI and DGP.** The MOF has decided to procure a COTS GRP system for the SAFI II, which will be financed by the World Bank. As such, this previously scheduled task under the FPEMP project will no longer be necessary.
- **Develop harmonization program of the chart of accounts and Budget Classifiers:** This task was postponed for the next quarter, according to the new donor coordination matrix.
- **Support the implementation of the TSA with other donors.** During this quarter, the IMF had to make another technical mission to improve the TSA implementation work plan. Once the TSA work plan has been updated, FPEMP will discuss with the DGT director the implementation tasks that will fall under the project.. Thus far, it is known that during the

following quarter the FPMP project will support the development of the functional component of the TSA system within the SAFII II conceptual model.

- **Development plan for medium term macro and expenditure frameworks (joint task with the IMF).** The MOF decided that the MTMEF will be developed with the support of the GIZ and FPMP after GIZ develops the conceptual model. Eventually this task will be scheduled for implementation during the year 2013.
- **Application testing of the Comprasal 2.** According to the donor coordination matrix this task has been assigned to the IADB.

KEY ACCOMPLISHMENTS/HIGHLIGHTS FOR THE 3rd QUARTER

Component A succeeded during the third quarter of FPMP in accomplishing several important tasks, including:

- **Definition of a conceptual model of the new GOES public finance system.** The FPMP team completed the development of the conceptual model paper for the GOES public finance system. This document includes an assessment of the budget, investment, public accounting, treasury and transparency structure, and provides options and recommendations for the development of a new public finance model for the Government of El Salvador. Additionally, the document includes recommendations for the development of the new SAFII II model. The paper was submitted to the Vice Minister of Revenue, Vice Minister of Expenditure, Directors of Budget, Treasury, Investment, Accounting, DINAFI, and the donor community including EU, AECID and GIZ, the multilateral organizations including IMF, WB and IDB, and to the USAID Mission who submitted it to the Minister of Finance and the Technical Secretary of the Presidency.
- **Development of the “critical path” for the public expenditure modernization reform.** Following the critical path methodology, the FPMP team developed of the scheduling for a set of activities under component A. This critical path was then validated with other donors and DINAFI. In addition, the path was presented to the Vice Minister of Revenue and other Directors of the MOF.

ACTIVITIES/ WORK PROGRESS

The following paragraphs contain a short description of specific activities developed during the third quarter for Component A.

- **Functionality study of Government Resource Planning (GRP) – First Phase.** FPMP is currently developing a market study to identify a GRP supplier that fulfills the basic necessities of the SAFI II, as identified by the DINAFI. Thus far, FPMP has had a meeting with the FreeBalance Software Enterprise from Canada, which made a presentation on the basic functionalities of their GRP. This task remains ongoing.
- **Definition of the SAFI II tasks:** During the quarter the project worked closely with the DINAFI in defining the activities to be implemented for the development of the conceptual model and the functional requirements of SAFI II. DINAFI requested the project to support the treasury, public investment, public debt and public assets and public inventory functions. The project will implement these activities during the following quarter.

NEXT STEPS

During the fourth quarter, FPEMP will continue developing the foundations of a successful expenditure modernization program by supporting the start of the TSA implementation; developing the conceptual model of the public investment, public debt, TSA and assets management functions for the SAFI II; supporting the development of the charts of accounts harmonization and reform plan; and the SAFI II system procurement program, among other activities. The main activities scheduled for the next quarter include:

- **Development of the conceptual model for the SAFI II's Public Investment System:** The project will develop the conceptual model and functional requirements for the public investment system of SAFI II during the following quarter. This task will be implemented in coordination with the DINAFI, DGICP and the EU.
- **Development of the conceptual model for the SAFI II's Public Debt System:** The project will develop the conceptual model and functional requirements for the integration of SAFI II with the SIGADE 6.0, in support of public debt management. This task will be implemented in coordination with the DINAFI, DGICP, OTA and the EU.
- **Development of the conceptual model for the SAFI II's Treasury Single Account System:** The project will develop the conceptual model and functional requirements for the TSA system of SAFI II during the following quarter. This task will be implemented in coordination with the DINAFI, DGICP and the EU.
- **Development of the conceptual model for the SAFI II's Public Assets and Public Inventory Systems:** The project will develop the conceptual model and functional requirements for the public assets and public inventory system of SAFI II during the following quarter. This task will be implemented in coordination with the DINAFI, DGICP and the EU.
- **Study tour to the Ministry of Finance of Colombia on the GRP's development and implementation strategy experience.** In order to support the project's development and implementation of SAFI II under a GRP system framework, the project coordinated a study tour to the Colombian MOF in order to learn from the Colombian experience in the implementation of a system that is similar to the one to be developed in El Salvador. The study tour is scheduled for March 2012 and the attending group includes the Director General of the Budget Directorate, the Deputy Director of the Treasury Directorate, the acting Deputy Directress of DINAFI, the Chief of the MOF IT Programming Department, the COP and the FPEMP IT Manager.
- **Consolidating basic conditions on the TSA implementation.** During the following quarter the project will seek consensus with the DGT Director on the critical path for the TSA implementation. It is expected that implementation will begin the fourth quarter.
- **Evaluation of the GOES compliance with the International Accounting System for the Public Sector (IPSAS):** The project will undertake an assessment of the charts of accounts and the current structure of the public accounting system in El Salvador in order to identify the gaps with the IPSAS. Additionally, the project will develop the plan for the system harmonization.

- **SAFI II user cases – operative and functional definition.** The operative and functional definition of user cases will be developed by the DINAFI staff, with FPEMP's staff support.
- **SAFIMU User Cases.** The user cases for SAFIMU have already been developed. In the next quarter, the EU team will review the conceptual model, the vision document and the user cases to guarantee the consistency and the attachments to best practices in themes subjected to municipal financial management.

COMPONENT B: Tax Revenue Mobilization

FPEMP aims to develop a strong, modern Salvadoran tax administration that is more equitable, efficient and taxpayer-friendly.

ACTIVITIES PREVIOUSLY PLANNED AND NOT IMPLEMENTED IN THE 3rd QUARTER

According to the annual work plan and the in the previous quarterly report, several activities were planned for the third quarter but were not implemented following the MOF's request for their postponement. This request follows the reorganization of tasks generated by the donor coordination matrix and the reschedule and prioritization of FPEMP's tasks.

- **Customs post-clearance control management system development and testing.** The DGA had not yet finished developing the user cases when the MOF decided to change the operational system from Oracle Application Server (OAS) to Jboss. This means that FPEMP will have to assist in migrating the current CSMS from one system to the other, and once the migration is completed the new applications will be developed including the case management application for customs. It is expected that this activity will begin on September 1st 2014.
- **Training on Income tax audit and transfer pricing techniques.** The MOF will be launching the new Large Taxpayer Directorate during the month of August, 2012. This means that the previously scheduled training on Income Tax Audit and Transfer pricing techniques had to be postponed for the last semester of the year.
- **Development and testing of the Fiscal Compliance Management System.** The user cases have not yet been submitted by the DGII. Additionally, this activity had to be rescheduled due to the migration of the current CSMS to Jboss. It is expected that this activity will begin on June 18th, 2012.
- **Development and testing of the VAT management system.** The VAT management system will work as an interphase of the CSMS. Due to the system migration, this activity was also postponed.
- **Technical support in the fiscal reforms regulations.** The donor coordination matrix developed by the MOF assigned this activity to AECID.

KEY ACCOMPLISHMENTS/HIGHLIGHTS FOR THE 3rd QUARTER

- **Defining the conceptual model for the Large Taxpayer Office.** The project assisted in the coordination and development of the conceptual model jointly with the DGII and will support the implementation of the new Large Taxpayer Directorate (LTD). Towards the end of the quarter the conceptual model was completed and approved by the DGII Director. During the following two quarters the project will assist in the LTD implementation.
- **Tax benchmarking study.** The MOF was supposed to develop and submit the tax benchmarking, but they never did it, in that regard the project developed the tax benchmarking and submitted it to USAID and included it in the project monitoring and evaluation program

- **Improvement in the Tax Administration IT System (SIIT).** The following improvements were done to the DGII IT system (SIIT):
 1. Improvements in the use of Oracle Internet Directory (OID) for the extraction of emails and institutions description. This allows reducing the memory consumption on the database of the Transactional Tax Software (JSIIT). Current Status: Production Environment.
 2. Improvements in the work flow of the taxpayer status requests on the java web system of JSIIT for the MOF. This allows having more efficient time response for the taxpayer. Status: Production Environment.
 3. Extend the criteria selections for auto-supervision on taxpayer status requests, and enhance the screens of supervisors and analysts in the work flow. This allows having more control in the supervision areas. Status: Test Environment.
 4. New reports of standard labor hours for the new and historical taxpayer requests and enhance the response time for the work flow of the current account taxpayer area. Status: Test Environment.
 5. Support the DGII with data issues related to the configuration of the current account hierarchies of analysts and supervisors, and the synchronization of database procedures in different environments (production, test and development).
 6. Developed an option with quick taxpayer status review (without password), which allows the taxpayer to know if they are up to date in their obligations with the MOF, via a web application that does not require a log in. Status: Test Environment.
 7. Implemented changes and fixed some bugs in the taxpayer status review (with password) option of the web application, which will improve the performance of sending and receiving a “taxpayer status request”. Status: Text Environment
 8. Definition of a model for the revision control system, a completely updated version compared to the one being used currently, allowing updates, merging and distribution of the Ministry’s system source code much more efficient. The implementation of this model is still under development. Status: Test Environment.
 9. Adding improvements to processes and registration screens, replacement, modification, termination and restoration of Taxpayer Identification Number (NIT) and Value Added Tax Identification Number (NRC) in the module form of TRS and TCA. Status: In Progress
- **Development of the revenue mobilization program critical path.** The FPEMP team has developed a critical path of activities for component B. This critical path was then validated with other donors and DINAFI. In addition, the path was presented to the Vice Minister of revenue and other Directors of the MOF who later agreed to the activities and milestones.

ACTIVITIES/ WORK PROGRESS

In addition to the key accomplishments highlighted above, the following paragraphs contain short descriptions of specific activities developed during the third quarter for Component B.

- **Preparation of the technological environment to develop the following software initiatives: CSMS II, Taxpayer Current Account and Taxpayer Registry.** FPEMP will develop a code generator strategy that supports first level, comprehensive JAVA technology that enables agile developments. This code generator strategy will help the MOF to follow the same vision and standardization in subsequent developments.
- **Development of the TCA system user cases.** FPEMP is currently in the process of developing the TCA user cases. The project is introducing new requirements of the user cases that are related with the DGII, DGT and DGA integration.
- **Development of TRS user cases.** FPEMP is currently in the process of developing the TRS user cases. The project is introducing 4 new adjustments that have to be agreed with the TRS expert user.
- **Definition of a strategy for CSMS sustainability.** FPEMP has demanded the incorporation of 2 Information Technology Unit (USI) officials to take part in the CSMS development so they can learn from the experience. They will also learn to manage the code generator strategy to be developed by FPEMP.
- **Coordination of the TRS clean-up.** The project worked extensively in the coordination of the TRS clean-up task. The clean-up will incorporate an automatic process as well as a manual clean-up process. Additionally, the reform in processes and procedures began during the quarter with the modification in the SIIT and the protocols. FPEMP will buy computer systems to start the manual cleaning process during September 2012. The DGII will place officials that will be coordinated by a consultant that FPEMP will contract to clean-up the TRS. This activity is expected to be completed by the end of March 2013.
- **Coordination of the TCA clean-up.** The project worked extensively in the coordination of the TCA clean-up task. The project proposed the reform of some tax regulations that negatively impact the taxpayer current account. Currently, the COP continues discussions with the DGII on the enacting of these rules. FPEMP will purchase computers to start the process. The DGII will place officials that will be coordinated by a consultant that FPEMP will contract to clean-up the TCA. This activity is expected to be completed by the end of March 2013.
- **Supporting User Cases of Case Selection Management System (CSMS) supervision, CSMS selection, Taxpayer registry, and Taxpayer account.** The FPEMP team has had meeting with the CSMS users to secure that the development of the user cases is on schedule. Concerning the TRS and TCA FPEMP has been providing support in the development of the user cases which are unclear on some definitions.
- **Development of the Large Taxpayers Directorate (LTD) implementation plan.** During the quarter the project worked in the LTD implementation plan. FPEMP is assisting with implementing the front office and back office, provide computers for all the LTD employees, provide training on Transfer Pricing Audit techniques, and will develop a study tour for 3 LTD officials to learn from the Chilean experience on establishing a large taxpayers directorate.
- **Developing a Tax Collections Call Center.** The project invested efforts on exploring the feasibility of establishing a Call Center that would be dedicated to collect the more than \$22

million that the DGT holds in tax arrears. The Attorney General's Office (Fiscalia General de la República) has more than \$100 million in tax arrears to be collected. The strategy for developing a Tax Collections Call Center was presented and later endorsed by the DGT Director. As part of this effort, FPEMP organized a presentation for the DGT Director and DINAFI Directress at the Fiscal compliance Call Center developed by TPAR. In the presentation the DGII officials learnt on the impressive success of the Fiscal Compliance Call Center that has helped the DGII improve tax collections from stop filers and other programs in more than 200%. The DGT Director agreed with the project and approved the initiative. The project will begin this task during the following quarter.

NEXT STEPS

For the next quarter, the Component B team is planning to undertake the following:

- **Development of code generator for CSMS.** During the next quarter, FPEMP will build a software piece that will help to generate codes and screens for the CSMS. These codes and screens will be generated from the system databases. This code generator will help the project to save in saving money in software development (less man power will be required) and in the future once it is donated to the MOF will help them to save resources and money.
- **Hearings and Test Opening Unit (UAAP) User Cases.** The project will request and provide support to the UAAP to start developing the user cases for the case management of taxpayer hearings, tax assessments and tax fines in order to schedule the system development.
- **Internal Taxes and Customs Taxes Appeals Court (TAIIA) User Cases.** The project will request and provide support to TAIIA to start developing the user cases for the case management of taxpayer appeals process, which will later involve scheduling the system development.
- **DGT User Cases.** The project will request and provide support to the DGT to start developing the user cases for tax and customs arrears collection process in order to schedule the system development.
- **Chile study tour for Large Taxpayer Office.** During the next quarter the project will develop a study tour to Chile for 3 officials of DGII. The study tour will be attended by the Large Taxpayer Director, chief of Taxpayer Assistance and chief of Fiscal Compliance. They will learn from the Chilean experience in the implementation of a LTD.
- **Coordination of the Large Taxpayer front-back Office implementation.** It has already been defined, in coordination with the MOF, the location/area where the office will be installed. In the next quarter, the project will move forward with the establishment of this office.
- **Large Taxpayer Office implementation.** The project will continue with the implementation of the new large taxpayer office. The inauguration is expected to take place on June 28th, 2012, with the official act led by the Minister of Finance and the U.S. Embassy Deputy Chief of Mission or the USAID Mission Director.
- **Collections Call Center.** The project has already had meetings with the DGT Director and Deputy Director. In these meetings it has been defined that the project will install 7 work

stations in the fiscal compliance call center of DGII dedicated to the collection functions. In addition, the Project has initiated the implementation roadmap with the DGT. The call center implementation will begin the following quarter.

- **Call Center equipment procurement.** It was defined by the project and the MOF that the project will buy 7 computers dedicated to the new function of collections in the call center. FPEMP is currently doing an equipment supplier market research. The equipment will be purchased in the next quarter.

COMPONENT C: Private Sector Outreach

Bridging differences and building consensus through outreach and dialogue is one of FPMP's objectives. FPMP aims to reinvigorate the dialogue between the government, the private sector, and the broader public through sustained, vibrant public-private exchanges.

Given the complex political, social and economic landscape of El Salvador, following our annual work plan, this quarter was dedicated to continue these activities. In coordination with the MOF and USAID, the project achieved major milestones for this component and expects to move forward with activities planned for the year beginning in the next quarter.

ACTIVITIES PREVIOUSLY PLANNED AND NOT IMPLEMENTED IN THE 3rd QUARTER

According to the annual work plan and the previously submitted quarterly report, several activities were planned but were not implemented during this quarter at the MOF's request to postpone them. Prioritization and scheduling of activities have been impacted due to the reorganization of tasks generated by the donor coordination efforts.

- **Stakeholder focus group and survey's questionnaire.** A characterization of the different groups and their interests which constitute the private sector was scheduled to be part of the activities during the second quarter but was not implemented due to the reorganization of tasks across donors. Notwithstanding, this effort will still be developed but it will be part of a broader strategy contributing not only to the Dissemination Strategy but also to the formulation of the Change Management Strategy. A Marketing Consultancy Firm will be hired to develop the conceptual document for change management, formulate the implementation strategy, and to support the MOF to meet the conditions necessary prior to the implementation. Inquiries from focus groups, experts' discussions, and a survey questionnaire for the development of the Change Management Strategy will be undertaken in the next quarter and will contribute to provide inputs for the Dissemination Strategy and Outreach activities for public/private sectors engagement.
- **Dissemination and sensitization with the MOF vice ministers on the feasibility of implementing a fiscal pact.** Due to the current lack of political will on this matter the new strategy of the project is to move forward with the fiscal transparency policy design and implementing the fiscal transparency policy. FPMP continues to stand ready to support the initiative of a fiscal pact, if political will is granted.
- **Assessment and development of the GOES private sector engagement plan.** Due to the MOF task reorganization this activity was not implemented during this quarter. Nevertheless, the Private Sector Engagement plan will be part of the Dissemination Strategy. The project will prepare a concept paper for the Dissemination Strategy which will be under the umbrella of the Fiscal Policy Strategy. Given that the Government is preparing a National Transparency and Anticorruption Policy, the MOF has requested FPMP to support the Fiscal Transparency Policy validation and the construction of the new Transparency Portal, and the development of an implementation plan and mechanisms for citizens' oversight of the GOES. In this regard, the Dissemination Strategy will be framed within the Fiscal Transparency Policy in order to comply with the needs expressed by the MOF. The Dissemination Strategy will include the Outreach Plan involving the private civil society

sector, in order to engage them in the process of budget oversight, as well as aspects of communication, information and education on fiscal reforms, and the new result-oriented planning.

This Concept Paper will be discussed with the Vice Ministers when seeking their approval to develop the next quarter's strategy. The strategy will address the various groups that comprise the private sector, as well as their needs and specific interests, in order to identify areas for dialogue and basic agreements. Additionally, the strategy will build ties with the civil society sector to support fiscal matters as well as mechanisms for accountability and observance of public finance performance.

Thus far, progress has been achieved in the dissemination, education and communication process. An assessment of the Communication Unit is underway to determine their needs for positioning the MOF in the new model of Change Management and Dissemination Strategy.

Additionally, the formulation of an education project targeting young students at the high school level is in progress. This project is part of a broader effort of the Fiscal Education Unit. It seeks to inform and educate youth regarding the importance of fiscal laws, public goods, revenue collection and its relation with the country's development. This effort is expected to generate awareness among youth about the importance to comply with these laws.

- **Evaluation of the portfolio of services to be provided by the MOF Call Center.** Due to task reorganization this activity was postponed. The proposed dissemination strategy involves the option of establishing a MOF Institutional Call Center as one of the means to provide information to the population and as part of the fiscal transparency strategy. This institutional call center will provide support to the implementation of the fiscal transparency policy and the taxpayer control and taxpayer service. Therefore, the portfolio of services will be determined in agreement with the several units that will participate in providing information to these audiences regarding fiscal reforms, public investment, tax collection, etc. Several meetings have already been held previous to the assessment. In addition, technology, models and standards will be defined with the project IT expert and the Call Center Director. An assessment of technology needs will be undertaken to improve the Call Center and MOF website.

KEY ACCOMPLISHMENTS FOR THE 3rd QUARTER

- **Defining the approach for strengthening the MOF's Training Center (DECAMH).** In an effort to transform DECAMH into a center of excellence, FPMEP undertook a needs assessment geared to identifying the gaps between DECAMH's current structure and key functions versus what should be in the new model of a modernized training center that aligns with the current reforms that are underway at the MOF.

FPMEP developed a proposal for the Institutional Strengthening and Capacity Building of DECAMH based on the assessment. The consultant worked with both the Human Resources Division and the DECAMH personnel to build the proposal and the timeline for its implementation. This proposal was submitted to the Human Resources Director and

DECAMH Director for their feedback. The proposal was approved by both units, and the implementation phase already began.

Prior to the implementation of the Institutional Strengthening and Capacity Building of the DECAMH, the first step was to modify DECAMH's structural and functional organization. The new agreement to modernize the DECAMH and transform it into a high level training center has been formulated and approved by the General Administration Director, DINAFI Directress, and Human Resources Directress. This is a step prior to the Ministerial approval. A Timeline has been develop and approved by DINAFI's Directress and the General Administration Director for the implementation of short term activities defined in the proposal of transformation (1 to 12 months).

- **Training on the methodology to elaborate training curricula for work positions.** An assessment of the methodology to elaborate training curricula for work positions was performed. In addition, the consultant trained part of the DECAMH and Human Resources personnel on this methodology to provide guidance on what is needed and to improve what they already have in the institution. Thirteen MOF employees attended the training.
- **Development of the EXPRESATE project.** The Fiscal Education Unit of the DGII requested support to implement an educational project targeting high School students from 15 to 20 years of age. This project is aligned with the DGII's Strategic Plan, and is complementary to other efforts that have been made in this regard, particularly linked to RECREHACIENDA, an educational project targeting school children from 7 to 14 years old. The EXPRESATE conceptual model has been developed in coordination with the Fiscal Education Unit of the DGII and a presentation was made for the Vice Minister of Revenue who approved the initiative. It is expected that implementation will begin in April 2012, while formal approval is in progress, and expected to be operational by the end of August 2012.
- **Development of the transparency initiative critical path.** The FPEMP team has developed a critical path of activities for component C. This critical path was then validated with other donors and DINAFI. In addition, the path was presented to the Vice Minister of revenue and other Directors of the MOF.
- **Technical support for the effective implementation of Fiscal Reforms.** In 2011 the GOES approved the new fiscal reforms. Some of these reforms were active in January 2012 and some will be active by January 2013. During the quarter, the MOF with FPEMP's support delivered several trainings on the new fiscal reforms targeted to individual taxpayers and businesses. FPEMP supported the delivery of the training resulting in 1,197 persons being trained. From these, 83 persons were MOF personnel and 1,114 persons were taxpayers.

ACTIVITIES/ WORK PROGRESS

- **Dissemination Strategy and Fiscal Transparency Initiative.** A first draft of the Concept Paper has been prepared for discussion. Nevertheless, given the expressed need of the MOF to comply with the Presidency National Transparency and Anticorruption Policy which involves all the institutions of the Government Executive Body, the Concept Paper had to be reformulated and adjusted to address the MOF Fiscal Transparency Policy. It is a model based on three key areas: 1) Dissemination, Communication and Information, 2)

Transparency Portal, outreach of private/civil society sector, citizens oversight mechanisms and accountability, 3) Institutional Call Center which includes a follow up to taxpayers' responsibilities, information regarding MOF services, and information on fiscal reforms. These key areas require the following: strengthening of the Communications Unit; modernization of the DECAMH on its new structure and operations; validation of the Fiscal Transparency Policy; construction of the Fiscal Transparency Portal improvement from what currently exist in the MOF webpage; development of oversight mechanisms of MOF's performance; accountability mechanisms engaging the private/civil society sectors, as well as services provided for taxpayers including the large taxpayers segment. During the quarter, the project worked closely with the Assistance Secretary for Anticorruption and Transparency of the Presidency and the DINAFI in developing the strategy to move forward with the fiscal transparency policy and fiscal transparency policy website development. The SOW for the project participation on this task was developed and the activities will begin during the following quarter.

- **Change Management Strategy.** Given the participation of several donors a matrix was developed to integrate the different efforts to be made in support of the MOF modernization process. It was agreed by all donors that a Change Management Strategy should be developed in order to help the MOF and other Government Institutions to adjust to the new processes regarding fiscal reforms, revenue collection and follow up of taxpayers, expenditure management, transparency and accountability, result-oriented budget, and so forth. During the quarter FPMP began the bid to hire a Salvadoran firm that will develop the strategy and will support the MOF in the necessary tasks to meet the requirements to implement the strategy.
- **DECAMH strengthening – Functional and Administrative Modernization.** The agreement for the modernization of DECAMH, including the changing of the name, was approved and is being reviewed by the Legal Unit of the MOF. Meanwhile, a timeline for undertaking several planned activities for a period of 6 months has been developed with the DINAFI Directress. These activities include: the hiring of two persons and the relocation of other 4 persons from other MOF units to support the course developments; formulation of curricula and course material elaboration. In addition, it is necessary to assess the trainers' capacity and performance, as well as identify new trainers. Additionally, MOF Personnel database was reviewed and integrated to reflect the personnel' positions and job requisites, performance assessment, training needed, and so forth. A Consultancy is scheduled for May 2012 for course development and elaboration of curricula.

NEXT STEPS

- **Transparency Portal User Cases.** To start this activity there must be a clear definition first, and this will depend on the GRP that the MOF will procure. If the GRP chosen does not include a transparency component then the project will begin the construction of the functional and nonfunctional transparency portal user cases characteristics. In consequence, this progress of this activity will depend on the GRP that the MOF will procure in the next quarter.
- **EXPRESATE project equipment procurement.** The project has already identified the IT equipment necessary to implement the EXPRESATE project. The project has begun the

supplier market research for this equipment. The procurement will be done next quarter before the project implementation.

- **EXPRESATE project implementation.** The EXPRESATE project was approved by the Vice Minister of Revenue and is ready for its implementation. The project is developing the respective documents and scope of works that will be ready by the end of March 2012. The implementation is planned to start in May.
- **Fiscal Transparency Policy Validation.** Within the Donors Matrix, FPMP assumed the responsibility of helping the MOF to undertake the validation process of the Fiscal Transparency Policy being formulated by the EU project. This validation process will build upon the general consultation made for the formulation of the National Anticorruption and Transparency Policy by the Under Secretariat of Anticorruption and Transparency from the Strategic Affairs Secretariat of the Presidency. These inputs from the general consultation mentioned will contribute to define different channels and instruments for consultation sessions with a diversity of participants from the private and civil society sectors, such as focus groups, experts' meetings, round tables, general public forums, on-line survey and so forth. This will enable the analysis of what the Fiscal Transparency Policy is proposing against the needs and expectations of the population in transparency and anticorruption matters as well as reporting and accountability. Additionally, these consultations will contribute to the designing of mechanisms for citizen oversight, especially those related to revenues and expenditures.
- **Creation of the Institutional Fiscal Dissemination Commission.** In order for FPMP to support the MOF in the fiscal reforms dissemination process and sharing of information about MOF functions, a Dissemination Strategy development is underway. This effort would be led by a High level Commission tasked with overseeing the Strategy's implementation and the achievement of its goals and targets. Nevertheless, provided that Fiscal Transparency Policy is to be integrated to the National Anticorruption and Transparency Policy, it is important that this Commission reviews relevant issues related to the Fiscal Transparency Policy and mechanisms for information dissemination. Furthermore, it may not be limited to the dissemination of fiscal reforms on revenue but also on the use of public funds for investment in development, which are the two areas of leading importance to the Salvadoran society, and particularly to the private sector. Therefore, the Commission should be one that provides guidelines on what information should be of general knowledge, based on the legal aspects emanated from the Public Information National Policy, the way this information should be delivered to the population and how the MOF will report to the population. The Commission would oversee the methods and processes to be implemented regarding use, dissemination reporting as well as accountability and favoring citizen's mechanisms for citizens' oversight of public finances. In this regard, it is important that the MOF creates an Institutional Fiscal Transparency and Dissemination Commission to oversee the Strategy implementation related to these matters. During the following quarter the project will work on the development of the necessary recommendations for the creation of such commission under the umbrella of the transparency policy.

CROSS CUTTING ACTIVITIES

During the third quarter there were activities and/or accomplishments that spill over all three FPMP components. These activities include:

KEY ACCOMPLISHMENTS FOR THE 3rd QUARTER

- **Donor matrix development.** Faced with the multi-donor coordination discussions went on for few months, the project took the initiative of developing a matrix containing the different activities related to public expenditure modernization, revenue mobilization, and private sector outreach. This matrix served as the basis for guiding discussions and finally reaching consensus on the distribution of activities across donors. This matrix also benefited from the EU and GIZ' inputs and was later submitted to the DINAFI. The DINAFI used this matrix as the main basis for developing the current donor coordination matrix, which presents the different activities required in a successful reform program including specific coordination assignment across donor assistance programs. The donors' coordination effort has been very challenging due to the similarity, and in many instances, overlapping scopes of work, but consensus was achieved during this quarter. Joint tasks among donors are now underway.

ACTIVITIES/ WORK PROGRESS

- **Development of hardware and software procurement plans:** FPMP is working on the development of a procurement plan in support of the project activities. During the following month, the IT procurement plan will be submitted to USAID and the Information Resources Management (IRM) for approval.
- **Recruitment of IT personnel:** FPMP is working on recruiting the IT personnel and experts that will continue supporting the project tasks related to IT. During this quarter 2 IT experts were hired.
- **Meeting with the Technical Secretary of the Presidency:** The COP, USAID Mission Director, USAID Economic Growth Office Director and the COTR met with the Technical Secretary of the Presidency, Mr. Alex Segovia. The COP presented to Mr. Segovia the tasks the project will be implementing in support of the GOES Expenditure System Modernization. Mr. Segovia confirmed the willingness of the presidency to support the project and they all agreed on the need to develop a critical path in order to make the project feasible. Additionally, Mr. Segovia explained that a National Planning System will be implemented at the central government level. The COP explained that it was important to count with the STP participation in the implementation of the project. Mr. Segovia has agreed to organize a presentation with the purpose of providing a detailed presentation about the National Planning System to the FPMP team and other stakeholders.
- **Donor coordination seminar:** The MOF delivered a donor's seminar in order to communicate the final results of the tasks assignments to all the technical assistance projects. The Minister of Finance confirmed the political will of the GOES in support of the public expenditure modernization, revenue mobilization and fiscal transparency reform programs. Additionally, he expressed that among others, the CSMS is a key system for the MOF in the day to day operations that provide not only efficient tax collection but also provides transparency to the tax control activities of the GOES.

MOF's Progress towards GOES goals

The Task Order document mandates that DAI reports, on a quarterly basis, on the Government of El Salvador's (GOES) progress toward the following targets:

Target	Progress
Build the foundations to move from the current budget system to a Result Oriented Budget system for Health, Agriculture and Education	The FPMP project achieved the first milestone in this process with the completion of the conceptual model paper for the public finance system of the Government of El Salvador. This document has been endorsed by the different MOF counterparts (including DGP). However, there are still some challenges ahead for the next step in the process. The project is getting mixed messages from the DGT director that has delayed the beginning of the budget modernization program. During the previous quarter, the Budget Directorate agreed on a plan to successfully implement ROB, beginning with the Ministry of Health and the Ministry of Agriculture. Unfortunately during this quarter, they have changed their decision several times. The DGT directorate constantly changes his position regarding the tasks to be implemented. In that regard, the COP developed a critical path and submitted it to the DGT, DINAFI and GIZ to assist in obtaining consensus between the parties. It is expected that during the following quarter an agreement is reached.
Implement a fully operational Treasury Single Account (TSA)	Based on the donor's matrix, FPMP has been assigned the task of TSA implementation. During the quarter, the IMF finished a mission aimed at improving the work plan previously developed by the IMF regarding the TSA implementation. It's been agreed that FPMP will provide support in the development of the conceptual model of the TSA system within the SAFI II. It is expected that during the following quarter the task of TSA implementation will begin with FPMP support.
Develop and implement the SAFI II	During the quarter, the MOF developed a donor's matrix and assigned FPMP the task to support the development of the conceptual

	model for Treasury, Public Debt, Public Assets and Inventory. Additionally, the project will support the GRP solutions evaluation.
Develop and implement an e-Procurement System	The MOF will be developing the system with IADB program funding.
Increase tax revenues by 2.0% of GDP by 2015	The CSMS upgrade, the RUC and the TCA update, and the strengthening of the Large Taxpayers Office was included in the donor's matrix as a task to be implemented by FPMP. During the donor's seminar the Vice minister of Revenue highlighted the importance of these tasks for the revenue mobilization efforts.
Develop new scenarios for private sector and civil society participation in fiscal matters and new transparency and accountability practices	The Assistance Secretary of Anticorruption and Transparency of the Presidency and the MOF are fully supporting the development of a National Transparency Policy that will include the Fiscal transparency Policy component. They requested FPMP and the EU to support the development of this Policy.
Successfully implement current and future tax reforms	During the quarter, the MOF with FPMP's support successfully implemented a dissemination program on the 2011 fiscal reform. During this program, 83 MOF personnel were trained on the reform as well as 1,114 taxpayers for a total of 1,197.

FPEMP's Progress Report – Performance Indicators

Finally, we present FPEMP's progress towards achieving the project's objectives measured by various performance indicators set in the Task Order document:

Project Performance Indicator	FPEMP Progress
Component A	
a) No less than twenty-five Public Sector Institutions using multiyear results- oriented budgets	FPEMP led the development of a conceptual model paper on the public finance system, of the Government of El Salvador. This document includes an in-depth analysis of the current status of public financial management in the GOES, identifying strengths, weaknesses and challenges, as well as it presents a strategic vision to guide the public expenditure management reform process. This document has been successfully endorsed by the top MOF executives, including the Budget Directorate. However, there have been some challenges with gaining approval from the DGT on the implementation plan. The FPEMP COP developed a critical of the modernization reform and submitted it to the DGT, DINAFI and GIZ. This document is expected to help guide the process and obtain consensus between the parties. It is expected that during the following quarter an agreement is reached.
b)Treasury enabled to make electronic payments on behalf of GOES entities by the end of the project under a Treasury Single Account system	During the quarter the MOF agreed with having FPEMP develop the conceptual model of the TSA for the new SAFI II, as the first step in the process. Additionally the project will support the implementation process.
c) Modernized MOF's human resources system integrated with the “ <i>Sistema de Administración Financiera Integrado</i> ” (SAFI) which is the Integrated Financial Management System of the Government of El Salvador	During the development of the donor's matrix the MOF assigned the SIRH task to the BIRF.
d) Strengthened MOF Budget-Planning and Public Investment Unit, by increasing the knowledge and IT resources of each Unit	The conceptual model of the public finance system developed by FPEMP includes recommendations for the implementation of a new budget system. The MOF has assigned FPEMP the task of implementing the new budget system, which will be developed in coordination with GIZ. Additionally, the COP, USAID Mission Director, USAID Economic Growth chief and the COTR met with Alex Segovia the Technical Secretary of Presidency to present to him the project scope and request support in the tasks to be implemented. Mr. Segovia agreed to provide the necessary support to the

	project, in particular because the STP will be the new office in charge of budget strategic planning.
e) Strengthened MOF Regulatory Unit, by increasing procurement by no less than 50%	During the development of the Donor's matrix the MOF assigned this task to the IADB.
f) Six hundred MOF and GOES agencies personnel trained in modern expenditure system management techniques by the end of the project	In the development of the donor's matrix the MOF assigned this task to FPMP and GIZ. The project will be coordinating efforts with the German cooperation.
g) Functional web-based Public Expenditure Tracking System available to the public	FPMP had several meetings with the Undersecretary of Anticorruption and Transparency of the Presidency, DINAFI and the EU project. The presidency and the MOF assigned FPMP the task of developing the conceptual model of the fiscal transparency website that will track public expenditures and will provide information on public finances to the public. The task will begin during the following quarter.
Component B	
h) Clean and reliable taxpayer current account	FPMP began the upgrading of the TCA system and the coordination of the TCA clean-up. During the quarter, several components of the systems were upgraded and deployed.
i) Clean and reliable taxpayer registration system	FPMP began the upgrading of the TRS system and the coordination of the TRS clean-up. During the quarter, several components of the systems were upgraded and deployed.
j) updated Case Selection and Management System	The MOF decided to change the operational system where the CSMS operates, they are moving from OAS to Jboss. In that regard FPMP is supporting the migration of the system. During the quarter, the project developed the migration plan and strategy. Additionally, the project supported the DGII in the development of the user's cases.
k) Technical assistance in the implementation of fiscal reforms, and no less than 300 MOF personnel trained to effectively apply the reforms in order to be able to generate the expected	The MOF with the support of FPMP trained 83 MOF officials in the 2011 fiscal reforms.

additional income	
Component C	
l) GOES assisted and enabled in facilitating discussions with the private sector in forging a new fiscal pact to increase resources to address the pressing social and economic needs of the country	The MOF continues to deliberate the need for a fiscal pact. If the MOF decides to proceed, the project will prepare a plan for technical support towards the fiscal pact.
m) No less than 60 private sector actors, at all levels, assisted in better understanding of new fiscal reforms	During the quarter the MOF with the support of FPEMP successfully implemented a dissemination program of the 2011 fiscal reform. During this program, 83 MOF personnel were trained as well as 1,114 taxpayers, for a total of 1,197. From the 1,197 a total of 667 were males and 580 were females. The project surpassed the goal proposed by USAID.
o) Effective promotion leading to the establishment of a public-private commission by Salvadoran actors, with the goal of monitoring on a yearly basis the approved budget versus actual GOES expenditures.	FPEMP had several meetings with the Undersecretary of Anticorruption and Transparency of the Presidency, DINAFI and the EU project. The presidency and the MOF assigned the FPEMP project the task of developing the conceptual model of the fiscal transparency website that will track public expenditures and will provide information to the public. The task will begin during the following quarter.
p) A functional state of the art in-house training program to provide MOF personnel with continuous up-to-date techniques and technical knowledge	During the quarter FPEMP developed the administrative and functional modernization plan for DECAMH and provided training in workstation description development. Additionally, the resolution that will reform the DECAMH functions was drafted by the project and submitted to the MOF for approval. The MOF requested FPEMP to provide support with a consultant that will review the expenditure directorates' personnel profiles and the curriculum for all the directorates' training programs. The COP agreed and it is expected that this task will begin the following quarter.

